

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7189

BILL NUMBER: HB 1885

DATE PREPARED: Feb 2, 2001

BILL AMENDED:

SUBJECT: Local Public Safety Pensions.

FISCAL ANALYST: James Sperlik

PHONE NUMBER: 232-9866

FUNDS AFFECTED:

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that a police officer who retires or becomes disabled after December 31, 2002, is entitled to a pension based on the salary of the rank held at the time of retirement or disability. It provides that a surviving spouse of a police officer who dies after December 31, 2002, is entitled to an annuity based on the salary of the rank held at the time of the death of the police officer. The bill provides that certain surviving children of a police officer who dies after December 31, 2002, are entitled to an annuity based on the salary of the rank held at the time of the death of the police officer. It provides for a five-year phase-in of the cost of these benefits. The bill increases the amount that must be appropriated from court fees to a pension trust for the sheriff's department.

Effective Date: July 1, 2001.

Explanation of State Expenditures: This bill increases the Pension Fund special distributions for a surviving spouse of a police officer by basing such benefits on the salary of the rank of the police officer rather than on the salary of a first class officer. The Office of Fiscal and Management Analysis has a printout which shows the impact of the additional Pension Relief distributions by year. Below is a table which shows the increase in special Pension Relief distributions for five years beginning in 2003.

<u>Year</u>	<u>Original Special Pension Relief Distribution</u>	<u>Increase in Special Pension Relief Distribution</u>
2003	\$740,942	\$148,189
2004	\$786,240	\$157,248
2005	\$831,527	\$166,305
2006	\$877,986	\$175,597
2007	\$926,409	\$185,282

Background: The Pension Relief Fund was established to help local communities with their pension payments. The major source of revenue for the Pension Relief Fund consists of a dedicated portion of the cigarette and liquor taxes, investment income on invested funds, and (since 1990) Lottery revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: It is difficult to estimate the fiscal impact of this proposal since actual salary data of the rank are not readily available. It has been assumed that the salary of the rank was 20% higher than that of the first class salary. It is also estimated that the rate of retirement would double if this proposal were adopted. This bill affects only the 1925 and 1953 Police Officers Plan. The unfunded accrued liability is estimated to decrease by about \$89.3 M. The fact that the formula for the bill uses the salary of the rank increases the unfunded accrued liability, but this is more than offset by the loss of a higher percentage of salary after 20 years of service has been earned. Below is a table which shows the increase in projected benefit payouts for five years, although benefit payouts will continue beyond.

<u>Year</u>	<u>Increase In Projected Benefits</u>
2003	\$209,615
2004	\$649,300
2005	\$1,128,045
2006	\$1,437,605
2007	\$1,403,065

Explanation of Local Revenues: 1925 and 1953 Police Officers Plan. This part of the bill increases the Pension Fund special distributions for a surviving spouse of a police officer by basing such benefits on the salary of the rank of the police officer rather than on the salary of a first class officer. The Office of Fiscal and Management Analysis has a printout which shows the impact of the additional Pension Relief distributions by year.

Increase in court fees to the sheriff's pension trust: This provision doubles from \$12 to \$24 the amount for each verified claim presented by the sheriff to the county fiscal body. The specific impact of this part will

be updated upon receipt of the necessary data from the courts and the sheriffs.

State Agencies Affected: Public Employees' Retirement Fund as administrators of the Pension Relief Fund.

Local Agencies Affected: Units with members in the 1925 and/or 1953 Police Officers Plan; Courts; County sheriffs.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for the Police and Fire Funds, 576-1508.

DEFINITIONS

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.